



December 12, 2018

Ms. Ann E Misback  
Secretary, Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

Re: Request for Comment: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments. Docket No. OP-1625

Dear Ms. Misback:

Shore United Bank (SUB) respectfully submits the following comments on the Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments (the Notice). SUB is a community bank with \$1.4 billion in assets. We operate 21 branches in Maryland, Delaware, and Virginia. SUB is proud to have participated on the Secure Payments Task Force from the formation and followed the work of the Faster Payments Task Force very closely. It was clear from the perspective of SUB and some other community banks participating in the task forces that the Fed's involvement in operating a faster payments network would most likely be necessary in order to reach ubiquity, so we are pleased to see the Board of Governors' interest.

There is no denying the benefits of one or many 24x7x365 faster payments solutions as long as there are proper controls and interoperability to promote ubiquity. After reviewing the Notice and considering the operational impacts of a Real Time Gross Settlement (RTGS) service and Liquidity Management Tool (LMT), SUB recommends (1) the creation of an LMT regardless of the decision on the RTGS and (2) that the Board of Governors considers a Deferred Net Settlement (DNS) service first with the intention of progressing to a RTGS service over time.

#### Liquidity Management Tool

An LMT should be developed independent of a RTGS service. It would be beneficial for managing fund balances for any faster payments solution. It would be a necessary and valuable tool to manage any 24x7x365 network to ensure smooth processing of payments. The negative impact to customers if payments are declined because of the bank's balance at the Federal Reserve would create reputational risk and distrust in the system that would cause community banks like SUB to hesitate to adopt a solution that does not offer a tool to help mitigate this risk. In addition, an LMT would help smooth the transition for Finance and Operations departments from the current settlement processes to a constant 24x7x365 state of settlement.

### Real Time Gross Settlement

It is SUB's opinion that a decision to move forward with the RTGS solution without clearly addressing the timeline will have a negative impact on the adoption of faster payments. Small and mid-sized community banks will potentially choose to delay implementation of any faster payments solutions while waiting for a Federal Reserve solution. This could negatively impact the development of private sector solutions and delay end user adoption. In addition, the operational impact of a RTGS solution could also delay the adoption of a faster payment solution by small and mid-sized community banks as the impact would be significant. Therefore, our recommendation is to start with a DNS service and progress to a RTGS service. We understand the additional credit and liquidity risk associated with providing funds to our customers before we have settlement between participants but believe the speed to market would be faster starting with a DNS service and some of the additional risk could be managed with an LMT. The infrastructure already exists for batch settlements in other payments such as ACH. The implementation of Same Day ACH has introduced an element of DNS which community banks and core providers have adjusted to with the multiple settlement windows. The operational adjustments needed to support a 24x7x365 RTGS service would slow bank adoption of the service regardless of how quickly the Federal Reserve could make it available. The reliance on core providers to make services like this available could also delay community bank adoption waiting for the core provider to make its necessary operational adjustments.

Ultimately, if the Federal Reserve chooses to implement either a DNS or a RTGS service, it must develop and offer the service quickly and make it interoperable with private sector services. Being able to connect to the Fed instead of multiple private sector solutions is attractive to us but that is only if that solution facilitates payments with those private sector solutions so that we will be on a level playing field with the large banks using existing solutions like The Clearing House's Real Time Payments service.

Thank you for the opportunity to provide comments regarding the Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

Please contact Kelly Dickerson at [kelly.dickerson@shoreunitedbank.com](mailto:kelly.dickerson@shoreunitedbank.com) if you have any questions.

Sincerely,

*Donna J. Stevens*

Donna J Stevens  
Senior Vice President, Chief Operating Officer